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Sugar

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Report Highlights:

Sugar production for MY 2004/05 remains unchanged at 5.41 million metric tons (MMT). Sugar production for MY 2003/04 was revised downward to 5.33 MMT. Sugar imports increased to 275,000 MT, due to larger imports of sugar under legally-questionable court injunctions. Human domestic consumption estimates for MY 2003/04 and 2004/05 increased, due to continued demand from the soft drink industry.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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SECTION I. SITUATION AND OUTLOOK

SUGAR PRODUCTION

Although the Mexican sugar industry has not yet published its sugar production estimate, MY 2004/2005 (October/September) sugar production is forecast to remain unchanged at 5.41 million metric tons (MMT) raw value. According to sources, this forecast is based on good weather conditions prevalent throughout the growing season. Sugar production for MY 2003/04 was revised downward from previous estimates to 5.33 MMT, but still surpassed MY 2003/04 production. Production benefited from good weather conditions including timely rainfall. Data for MY 2002/03 remains unchanged.

Area planted for MY 2004/05 was revised downward and area harvested remains unchanged based on estimated official information. The sugar cane production forecast for MY 2004/05 was revised upward, based on good weather conditions and expectations of increased cane yields. Area planted for MY 2003/04 and 2002/03 was also revised downward and production of sugar cane was revised upward based on official estimates.

Three years after the expropriation of 27 sugar mills, the federal government will be ready to begin the reprivatization of the first four sugar mills: San Francisco–El Naranjal and Industrial Azucarera San Pedro in the state of Veracruz; La Joya in the state of Campeche; and Santa Rosalia Chontalpa in the state of Tabasco. The Government of Mexico (GOM) will pay the corresponding compensations to the original sugar mill owners from whom they were expropriated by September or October 2004 and then will sell the mills. Even though the Government planned to reprivatize all 27 mills in the first 18 months after expropriation, the filing of court injunctions (*amparos*) and other legal issues brought up by the former mill owners have delayed the reprivatization process. The court cases of other mills are still in the process of resolution.

High fructose corn syrup (HFCS) production for CY 2004 is still forecast to be between 130,000 to 140,000 MT dry basis, based on the assumption that no resolution will be reached in the U.S.-Mexico sweetener dispute. Most of this production is destined for the bakery, food processing, fruit and juice canning, and yogurt industries, due to the continued imposition of the 20-percent tax on HFCS-containing beverages. Mexican production of HFCS is not published by official sources and companies treat it as confidential information. In CY 2001, the last year prior to the imposition of the beverage tax, Mexican HFCS production was estimated between 250,000 to 300,000 MT. All other production information remains unchanged as reported in MX 4045.

SUGAR AND HFCS CONSUMPTION

The sugar for human domestic consumption forecast for MY 2004/05 was revised upward from previous estimates to 5.37 MMT, due to more demand from the bottling industry as a result of the 20-percent duty on HFCS-containing beverages. Sugar for human domestic consumption for MY 2003/04 was revised upward to 5.30 MMT, also due to increased usage of sugar over HFCS by the soft drink industry. The soft drink industry estimates its MY 2003/04 sugar consumption at about 1.6 MMT. The soft drink industry and the chocolate manufacturers maintain that sugar supplies will be tight for the last three months of 2004, as they were in 2003. Sugar for domestic consumption for MY 2002/03 remains unchanged.

HFCS consumption for CY 2004 is still forecast to be between 130,000 to 140,000 MT dry basis, as only the bakery, food processing, fruit and juice canning, and yogurt industries continue to use HFCS. All other consumption information remains unchanged as reported in MX 4045.

SUGAR TRADE

The forecast for MY 2004/05 sugar exports under the “other disappearance” category was revised downward to 110,000 MT, due to lower-than-expected stocks available for use as PITEX sugar. The PITEX program allows domestically-produced sugar to be sold as raw material for further processing to Mexican food manufacturers, who buy the sugar at about the world price. The food manufacturers must process the sugar within six months of the date of purchase and then must export the final processed product. Given this process, the GOM classifies the sugar sold under the PITEX program as exports. The underlying rationale behind the PITEX program is to allow Mexican sugar mills to fulfill their export quota while at the same time maintaining some flexibility with regard to domestic sugar supplies. This enables the industry to avoid the situation which would result from selling raw sugar on the world market and then importing it back, should there be an unexpected domestic shortage. Also, sugar mills and processors avoid transportation expenses.

Recently, Mexico has had to import sugar for PITEX use as, according to some industry sources, not enough domestic sugar has been available for PITEX and there is a need to meet this demand with imported sugar. According to both the Chamber for the Sugar and Alcohol Industries and other industry sources, Mexico’s total PITEX sugar demand for MY 2004/05 could be between 180,000 to 200,000 MT.

The estimate for MY 2003/04 sugar exports under “other disappearance” category was revised downward from previous estimates to 90,000 MT as there were fewer supplies available for use as PITEX sugar. The estimate for MY 2002/03 sugar exports under the “other disappearance” category remains unchanged.

MY 2004/05 total sugar exports were revised upward to 126,000 MT. This estimate includes Mexico’s WTO sugar quota to the U.S. and about 116,000 MT of imported PITEX sugar, some of which is expected to be imported under the as yet unannounced 2004 sugar TRQ. However, this sugar export forecast will ultimately be dependent on final sugar production figures, the outcome, if any, of U.S.-Mexico sweetener negotiations, substitution by alternative domestic and imported sweeteners, and whether or not the Ministry of Economy (SE) decides to issue a TRQ for the remainder of 2004. In the unlikely event that SE decides not to establish a 2004 TRQ, MY 2004/05 sugar exports are forecast at 90,000 MT.

Total sugar export estimates for MY 2003/04 were revised upward to 151,000 MT, based on official information. This data includes approximately 100,000 MT of PITEX sugar exports, the WTO sugar quota to the U.S., and some raw sugar that Mexico imported previously and did not use (Mexican trade data show only, so far, the WTO sugar exports). Although some industry sources estimate Mexico’s total sugar PITEX demand for MY 2003/04 at 180,000 MT, others claim that PITEX demand could be higher. Data for total sugar exports for MY 2002/03 remains unchanged.

MY 2004/05 total sugar imports were revised upward to 151,000 MT, mainly in refined sugar, due to expectations of greater demand from the industry. It should be noted that this figure is based on the expectation that SE will announce a TRQ for refined sugar for the remainder of 2004. As of the writing of this report, an official announcement on the 2004 TRQ was imminent. According to SE, the objective of this measure is the same as that of last year – to ensure that there will be enough strategic reserves to meet domestic demand, in case domestic sugar stocks are insufficient during the balance of 2004 (October-December). It should be noted that the Chamber for the Sugar and Alcohol Industries maintains the opposite position, that is, that there is enough domestic sugar available to fulfill PITEX needs or other domestic needs and that therefore there is no need to import additional sugar under

the proposed TRQ. Unlike the MY 2003/04 sugar import estimate, the MY 2004/05 sugar import forecast does not take into account sugar imported duty-free via court injunctions (amparos), given the legal questionability of these court injunctions and the possibility that amparos will not be granted in MY 2004/05. In the unlikely event that SE decides not to establish a 2004 TRQ, MY 2004/05 sugar imports are forecast at 76,000 MT.

According to official sources, sugar imported through court injunctions represents close to US\$29 million in tax losses. The Chamber for the Sugar and Alcohol Industries indicated that it had already discussed with Mexican juridical authorities the possibility of prohibiting entry of future sugar imports under the court injunction loophole, as it believes domestic sugar supplies are sufficient to meet demand. However, according to different industry sources, demand for duty-free imports (via questionable court injunctions) was spurred by low domestic sugar inventories and higher prices.

Total sugar import estimates for MY 2003/04 were revised upward to 275,000 MT. According to the sugar industry, these imports include about 74,000 MT imported under the official sugar TRQ that Mexico announced on September 27, 2003 (see report MX 3128); about 100,000 MT of sugar imported for PITEX industries; and the rest imported from Guatemala, Brazil and Colombia (some of it via the United States) under legally-questionable court injunctions that allowed sugar imports to enter duty-free. Import data for MY 2002/03 remain unchanged.

Sugar prices increased 2 percent in July 2004 for standard sugar and 1 percent for refined sugar. For June 1, 2004, prices for standard sugar were about \$300.00 pesos/50 kg bag (US\$26.20/50 kg bag), and by July 6, prices had increased to about \$312.00 pesos/50 kg bag (US\$27.25/50 kg bag). June 1, 2004 prices for refined sugar were about \$340.00 pesos/50 kg bag (US\$29.70/50 kg bag), and by July 6 prices were \$345.00 pesos/50 kg bag (US\$30.13/50 kg bag).

HFCS TRADE

Trade information for HFCS has not changed since report MX 4045. Due to the imposition of the 20-percent duty on HFCS-containing soft drinks and beverages and given the assumption that it will remain in place, HFCS imports for CY 2004 are forecast to continue to be insignificant as they were for CY 2003. The increase in HFCS exports to the United States has increased significantly over the past two years – albeit from a very small base – also due to the beverage tax. In order to maintain its plant in operation, one company has continued to produce HFCS in Mexico but has decided to export it to the United States, rather than face the difficulty of selling it domestically.

As of the writing of this report, Mexico and the United States have approved the establishment and composition of a WTO panel to investigate the U.S. charge that Mexico's 20-percent tax on all beverages using sweetener other than cane sugar is WTO inconsistent.

STOCKS

Stocks for MY 2004/05 were revised downward, due to smaller-than-expected beginning stocks, but are still large enough to ensure that strategic reserves are met -- a level approximating three months of domestic consumption. Sugar stock levels for MY 2003/04 were also revised downward due to lower-than-expected sugar production, but, again, still were large enough to ensure that strategic reserves were met. Sugar brought into Mexico under legally-questionable court injunctions during MY 2003/04 is reflected in this number. Ending stocks for MY 2002/03 remain unchanged.

SECTION II. STATISTICAL TABLES

Centrifugal Sugar Table

| | | | | | | |
|------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | | | | | | |
| Country | Mexico | | | | | |
| Commodity | Sugar, Centrifugal | | | | (1000 MT) Raw Value | |
| | 2003 Revised | | 2004 Estimate | | 2005 Forecast | |
| | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] |
| Market Year Begin | 10/2002 | | 10/2003 | | 10/2004 | |
| Beginning Stocks | 1172 | 1172 | 1194 | 1194 | 1401 | 1253 |
| Beet Sugar Production | 0 | 0 | 0 | 0 | 0 | 0 |
| Cane Sugar Production | 5229 | 5229 | 5517 | 5330 | 5410 | 5410 |
| TOTAL Sugar Production | 5229 | 5229 | 5517 | 5330 | 5410 | 5410 |
| Raw Imports | 1 | 1 | 1 | 40 | 1 | 1 |
| Refined Imp.(Raw Val) | 62 | 62 | 105 | 235 | 20 | 150 |
| TOTAL Imports | 63 | 63 | 106 | 275 | 21 | 151 |
| TOTAL SUPPLY | 6464 | 6464 | 6817 | 6799 | 6832 | 6814 |
| Raw Exports | 12 | 12 | 6 | 48 | 6 | 8 |
| Refined Exp.(Raw Val) | 26 | 26 | 60 | 103 | 60 | 118 |
| TOTAL EXPORTS | 38 | 38 | 66 | 151 | 66 | 126 |
| Human Dom. Consumption | 5097 | 5097 | 5220 | 5305 | 5350 | 5376 |
| Other Disappearance | 135 | 135 | 130 | 90 | 130 | 110 |
| Total Disappearance | 5232 | 5232 | 5350 | 5395 | 5480 | 5486 |
| Ending Stocks | 1194 | 1194 | 1401 | 1253 | 1286 | 1202 |
| TOTAL DISTRIBUTION | 6464 | 6464 | 6817 | 6799 | 6832 | 6814 |
| | | | | | | |

Sugarcane for Centrifugal Sugar

| | | | | | | |
|-------------------------|----------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | | | | | | |
| Country | Mexico | | | | | |
| Commodity | Sugar Cane for Centrifugal | | | (1000 HA)(1000 MT) | | |
| | 2003 Revised | | 2004 Estimate | | 2005 Forecast | |
| | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] |
| Market Year Begin | 11/2002 | | 11/2003 | | 11/2004 | |
| Area Planted | 700 | 640 | 700 | 640 | 715 | 640 |
| Area Harvested | 606 | 606 | 609 | 609 | 610 | 610 |
| Production | 43948 | 43948 | 44500 | 45456 | 44500 | 45500 |
| TOTAL SUPPLY | 43948 | 43948 | 44500 | 45456 | 44500 | 45500 |
| Utilization for Sugar | 43948 | 43948 | 44500 | 45456 | 44500 | 45500 |
| Utilization for Alcohol | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL UTILIZATION | 43948 | 43948 | 44500 | 45456 | 44500 | 45500 |

Sugar Prices

| AVERAGE SUGAR PRICES UNITS: 50 KG. BULK/PESOS | | | | | | |
|--|----------|--------|-------------|---------|--------|-------------|
| MONTH | STANDARD | | CHANGE % | REFINED | | CHANGE % |
| | 2003 | 2004 | | 2003 | 2004 | |
| JANUARY | 268.50 | 309.70 | 15.34 | 310.81 | 345.00 | 11.00 |
| FEBRUARY | 266.46 | 296.25 | 11.17 | 310.73 | 340.00 | 9.41 |
| MARCH | 265.01 | 291.25 | 9.90 | 308.13 | 340.00 | 10.34 |
| APRIL | 270.04 | 298.25 | 10.44 | 313.20 | 340.00 | 8.55 |
| MAY | 273.14 | 297.25 | 8.82 | 315.26 | 340.00 | 7.84 |
| JUNE | 278.50 | 302.95 | 8.77 | 320.36 | 345.00 | 7.69 |
| JULY | 285.05 | 317.90 | 11.52 | 334.24 | 345.00 | 3.21 |
| AUGUST | 287.64 | 326.20 | 13.40 | 339.84 | 353.00 | 3.87 |
| SEPTEMBER | 294.90 | N/a | N/a | 363.00 | N/a | N/a |
| OCTOBER | 302.40 | N/a | N/a | 360.00 | N/a | N/a |
| NOVEMBER | 303.75 | N/a | N/a | 365.00 | N/a | N/a |
| DECEMBER | 319.10 | N/a | N/a | 360.00 | N/a | N/a |

Source: Servicio Nacional de Informacion de Mercados SNIIM-ECONOMIA
 2003 Avg. Exchange Rate US\$1.00=\$11.19 pesos
 2004 Exchange Rate August 23, 2004 US\$1.00=\$11.54 pesos

Trade Matrixes

| SUGAR | | H.S. 1701 | UNITS: METRIC TONS | |
|---|--|-----------|---|---------|
| EXPORTS for MY 2003/04* (Oct-Sept*) TO: | | | IMPORTS for MY 2003/04* (Oct-Sept*) FROM: | |
| U.S. | | 7,687 | U.S. | 73,297 |
| OTHER | | | OTHER | |
| SOUTH KOREA | | 12 | GUATEMALA | 83,270 |
| UNITED KINGDOM | | 12 | BRAZIL | 78,498 |
| TOTAL OF OTHER | | 24 | TOTAL OF OTHER | 83,270 |
| OTHERS NOT LISTED | | 2 | OTHERS NOT LISTED | 21,152 |
| Grand total | | 7,713 | Grand total | 256,217 |

SOURCE: Global Trade Information Services, Inc. World Trade Atlas Mexico Edition, May 2004. * Information as of May 2004

Note: Expressed values for H.S. 1701 consolidate the following subheadings:
 1701.11.01, 1701.11.02, 1701.11.03, 1701.11.99, 1701.12.01, 1701.12.02,
 1701.12.03, 1701.12.99, 1701.91.01, 1701.99.01, 1701.99.02, & 1701.99.99

| HFCS | | H.S. 1702.40 | UNITS: METRIC TONS | |
|--------------------------|--|--------------|----------------------------|-----|
| EXPORTS for CY 2004* TO: | | | IMPORTS for CY 2004* FROM: | |
| U.S. | | 6,877 | U.S. | 833 |
| OTHER | | | OTHER | |
| GUATEMALA | | 29 | CHINA | 132 |
| TOTAL OF OTHER | | 29 | TOTAL OF OTHER | 132 |
| OTHERS NOT LISTED | | 5 | OTHERS NOT LISTED | 24 |
| Grand total | | 6,911 | Grand total | 989 |

SOURCE: Global Trade Information Services, Inc. World Trade Atlas Mexico Edition, May 2004.

* Information as of May 2004

Note: Expressed values for H.S. 1702.40 consolidate the following subheadings: 1702.40.01, & 1702.40.99.

| HFCS | | H.S. 1702.60 | UNITS: METRIC TONS | |
|--------------------------|--|--------------|----------------------------|-------|
| EXPORTS for CY 2004* TO: | | | IMPORTS for CY 2004* FROM: | |
| U.S. | | 651 | U.S. | 2,447 |
| OTHER | | | OTHER | |
| GERMANY | | 239 | GERMANY | 0 |
| TOTAL OF OTHER | | 239 | TOTAL OF OTHER | 0 |
| OTHERS NOT LISTED | | 156 | OTHERS NOT LISTED | 0 |
| Grand total | | 1,046 | Grand total | 2,447 |

SOURCE: Global Trade Information Services, Inc. World Trade Atlas Mexico Edition, May 2004.

* Information as of May 2004

Note: Expressed values for H.S. 1702.40 consolidate the following subheadings 1702.60.01, 1702.60.02 & 1702.60.99.

SUGAR TARIFFS

| MEXICAN SUGAR IMPORT TARIFFS FOR 2004 | | |
|---------------------------------------|---|---|
| H.T.S. TARIFF # SUBHEADING | NAFTA Tariffs for U.S. Commodities DOLLARS/KG [⚡] | SPECIFIC TARIFF FOR THIRD COUNTRY COMMODITIES DOLLARS/KG |
| 1701.11.01 | 0.31668 | 0.36 |
| 1701.11.02 | 0.31668 | 0.36 |
| 1701.11.03 | 0.31668 | 0.36 |
| 1701.12.01 | 0.31668 | 0.36 |
| 1701.12.02 | 0.31668 | 0.36 |
| 1701.12.03 | 0.31668 | 0.36 |
| 1701.91.01 | 0.31668 | 0.36 |
| 1701.99.01 | 0.31668 | 0.36 |
| 1701.99.02 | 0.31668 | 0.36 |
| 1701.99.99 | 0.31668 | 0.36 |
| 1806.10.01 | 0.31668 | 0.36 |
| 2106.90.05 | 0.31668 | 0.36 |
| | | |

Source: Secretariat of Economy

[⚡] Note: The sugar importer must have a written statement from the exporter that certifies that the product has not benefited from the U.S. Sugar Re-export Program. If the importer has this statement, then the sugar will be subject to duty on the second column. Otherwise, the product will be subject to the tariff in column three. The Specific Tariff for third countries in column three, was modified to comply with WTO regulations and announced in the *Diario Oficial* on July 20, 2004.

EXCHANGE RATE

| MONTHLY EXCHANGE RATE AVERAGES | | | |
|---|-------------|--------------|-------------|
| | 2002 | 2003 | 2004 |
| January | 9.16 | 10.59 | 10.93 |
| February | 9.10 | 10.93 | 11.01 |
| March | 9.07 | 10.92 | 11.00 |
| April | 9.14 | 10.61 | 11.26 |
| May | 9.49 | 10.25 | 11.52 |
| June | 9.75 | 10.49 | 11.38 |
| July | 9.79 | 10.44 | 11.53 |
| August | 9.83 | 10.75 | N/A |
| September | 10.05 | 10.92 | N/A |
| October | 10.09 | 11.17 | N/A |
| November | 10.19 | 11.12 | N/A |
| December | 10.21 | 11.25 | N/A |
| Annual Avg. | 9.82 | 10.79 | N/A |
| <p>Source: Mexican Federal Register Note: Monthly rates are averages of daily exchange rates from the Banco de Mexico.</p> | | | |